

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

STANDARDIZATION OF DEFENSE
CIVILIAN PAY SYSTEMS

Report No. 96-058

January 9, 1996

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Department of Defense

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Under Secretary of Defense (Comptroller)



**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884**



January 9, 1996

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)

**SUBJECT: Audit Report on Standardization of Defense Civilian Pay Systems
(Report No. 96-058)**

We are providing this audit report for review and comments. The audit was conducted in support of our financial statement audits required by the Chief Financial Officers Act of 1990 and the Federal Financial Management Act of 1994. This is one in a series of reports that will be issued on migratory financial management systems. We considered management comments on a draft of this report in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. As a result of management comments, we revised Recommendation 1. and redirected and revised Recommendation 2. Therefore, we request that the Under Secretary of Defense (Comptroller) provide additional comments on Recommendations 1. and 2. in response to the final report. We request that management provide the comments by March 8, 1996.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Christian Hendricks, Audit Program Director, at (703) 604-9140 (DSN 664-9140) or Mr. Dennis L. Conway, Audit Project Manager, at (703) 604-9158 (DSN 664-9158). See Appendix F for the report distribution. The audit team members are listed inside the back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 96-058
(Project No. 5FG-2004)

January 9, 1996

Standardization of Defense Civilian Pay Systems

Executive Summary

Introduction. This report is the result of our ongoing audit of the Defense Civilian Pay System. The audit supports our audits required by the Chief Financial Officers Act of 1990 and the Federal Financial Management Act of 1994. The Defense Civilian Pay System is a DoD-designated migratory system that will standardize and integrate 18 civilian pay systems. The Defense Civilian Pay System is estimated to cost \$42.7 million and save DoD more than \$700 million in operating costs during a 10-year period when compared to existing systems, and to be fully implemented in FY 1998.

Audit Objectives. The overall audit objective was to evaluate the effectiveness of the management controls within the Defense Civilian Pay System. The specific objectives were as follows.

- o Determine whether management controls were adequately considered for automated information system life-cycle management, phase III, "Production."

- o Evaluate whether the system supports the requirements for comparability and consistency of financial management data as required by Office of Management and Budget Circular A-127, "Financial Management Systems," and related requirements.

- o Evaluate the implementation of the DoD management control program as it relates to migratory accounting systems.

This report discusses audit results for the first specific objective. In subsequent audit reports, we will discuss additional audit results for the first and second specific objectives and the implementation of the DoD management control program as it applies to the overall audit objective.

Audit Results. All DoD civilian employees were not included in plans for conversion to the Defense Civilian Pay System. Specifically, the Under Secretary of Defense (Comptroller) plans to operate and maintain two civilian pay systems. Approximately 120,000 DoD civilian employees in Defense Business Operations Fund activities (about 13 percent of total DoD civilian employees) were scheduled to remain on the Defense Business Management System. As a result, DoD will not realize the full efficiencies gained by converting (migrating) to a single civilian pay system to complement the Defense Civilian Personnel Data System. The costs of operating the Defense Civilian Pay System will be addressed in a subsequent report. For details of the audit results, see Part I.

The recommendations in this report, if implemented, will help DoD develop the most cost-effective civilian pay strategy for its civilian employees. See Part I for a discussion of the audit results and Appendix D for a summary of the potential benefits resulting from the audit. Implementation of the DoD management control program is discussed in Appendix A.

Summary of Recommendations. We recommend that the Under Secretary of Defense (Comptroller) conduct a cost-benefit analysis of the proposed migration of all DoD civilian employees to the Defense Civilian Pay System. Further, we recommend that the Under Secretary of Defense (Comptroller) implement the most cost-effective DoD-wide civilian pay strategy, based on that cost-benefit analysis, and revise the DoD Financial Management Regulation to reflect the strategy.

Management Comments. The Deputy Chief Financial Officer, Office of the Under Secretary of Defense (Comptroller), did not concur or nonconcur with the draft report recommendations, but suggested that we revise the report and recommendations to show the need for a cost-benefit analysis on the feasibility of migrating all DoD civilian employees to the Defense Civilian Pay System. Also, the Deputy Chief Financial Officer suggested that the report show the Under Secretary of Defense (Comptroller) as responsible for selecting standard financial management systems. See Part I for a summary of management comments and Part III for the complete text of management comments.

Audit Response. The Deputy Chief Financial Officer's comments were partially responsive. As a result of those comments, we revised our recommendation to change DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 8, "Civilian Pay Policy and Procedures," January 3, 1995. We also redirected and revised our recommendation to migrate civilians receiving pay services from the Defense Business Management System to the Defense Civilian Pay System. We request that the Under Secretary of Defense (Comptroller) comment on this final report by March 8, 1996.

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Part I - Audit Results

Audit Background

In this audit of the Defense Civilian Pay System (DCPS), we evaluated the migratory financial management systems of DoD. This audit supports our financial statement audits required by the Chief Financial Officers Act of 1990 and the Federal Financial Management Act of 1994.

On October 17, 1991, the Under Secretary of Defense (Comptroller) (USD[C]) decided to migrate from multiple DoD civilian pay systems to the Navy Standard Civilian Pay System. In addition, the USD(C) mandated the use of The Automated Payroll Cost and Personnel System (now called the Defense Business Management System [DBMS]) for all Defense Business Operations Fund Activities that did not have a cost accounting process. On November 26, 1991, the Defense Finance and Accounting Service (DFAS) renamed the Navy Standard Civilian Pay System as the Defense Civilian Pay System. Although the selection process began in May 1992, the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) did not approve the DCPS as a migratory system until February 27, 1995.

The DCPS is intended to replace all 18 civilian pay systems, to save more than \$700 million during a 10-year period, and to support DoD's goal of standardizing and integrating accounting systems. The DCPS will complement the Defense Civilian Personnel Data System (DCPDS), which will achieve the same consolidation and integration objectives as DCPS for the multiple civilian personnel systems. The elimination of these civilian pay systems and the central design activities that support the systems could reduce the average monthly civilian pay costs from approximately \$12 to \$8 per employee by FY 1996.

As of July 1995, the system served about 389,000 civilians and 168 DoD organizations. Implementation was scheduled to be completed in FY 1996; however, the completion date has been revised to FY 1998. The system was budgeted at \$42.7 million during the original implementation period.

Audit Objectives

The overall audit objective was to evaluate the effectiveness of the management controls within the DCPS. The specific objectives were as follows.

- o Determine whether management controls were adequately considered for automated information system life-cycle management, phase III, "Production."

- o Evaluate whether the system supports requirements for comparability and consistency of financial management data as required by the Office of Management and Budget Circular A-127, "Financial Management Systems," and related requirements.

- o Evaluate implementation of the DoD management control program as it relates to migratory accounting systems.

This report discusses audit results for the first specific objective. In subsequent audit reports, we will discuss additional audit results for the first and second specific objectives and the implementation of the DoD management control program as it applies to the overall audit objective.

See Appendix A for the audit scope and methodology and a discussion of the DoD management control program. See Appendix B for a summary of prior coverage related to the audit objectives.

Plans to Use Two Civilian Pay Systems

The Under Secretary of Defense (Comptroller) plans to operate and maintain two civilian pay systems. Approximately 120,000 DoD civilian employees working at Defense Business Operations Fund activities will remain on the Defense Business Management System rather than migrating to the DoD approved civilian pay system, which is the Defense Civilian Pay System.

These employees are not migrating at this time because the USD(C) approved the use of the DBMS for civilian pay purposes. This approval recognized the benefit of integrating personnel with pay functions and pay with accounting functions within the DBMS, and the undesirability of separating those functions. Therefore, USD(C) guidance, found in the DoD Financial Management Regulation, permits two civilian pay systems. As a result, DoD will not realize all of the \$700 million in estimated benefits from migrating to a single civilian pay system. The Defense Civilian Personnel Data System could also be required to interface with both the DCPS and the DBMS rather than interfacing only with the DCPS, if the DBMS civilian pay function is not discontinued.

Automated Financial System Policies

Developing and Implementing Automated Systems. The Office of Management and Budget (OMB) Circular A-127, "Financial Management Systems," July 23, 1993, requires management to identify cost-effective and efficient solutions for developing and implementing automated systems. OMB Circular A-127 further requires agencies to design systems based on an agency's need for information.

Conducting Cost-Benefit Analyses. OMB Circular A-130, "Management of Federal Information Resources," July 15, 1994, provides guidance for conducting cost-benefit analyses to ensure that an agency's management receives the maximum return and incurs the minimum financial and operational risk for investments in major information systems. Cost-benefit analyses should rely on systematic measures of performance, including the program's effectiveness and efficiency.

Use of a Single Civilian Pay System. The Defense Finance and Accounting Service (DFAS) issued its "Report on the Consolidation and Standardization of Civilian Payroll Within DoD" in January 1992. This report was generated by the DFAS Civilian Payroll Standardization Task Group. Members of the task group include personnel from Headquarters, DFAS; the DFAS Indianapolis Center; the DFAS Financial Systems Activity, Pensacola, Florida (formerly known as the DFAS Washington Center, Pensacola, Florida); the DFAS Denver

Center; the DFAS Columbus Center; the Defense Logistics Agency; the DoD Corporate Information Management Civilian Payroll Group; and the Naval Center for Cost Analysis.

A detailed cost-benefit analysis represented the major portion of the January 1992 report. The analysis presented the potential costs and benefits of implementing each of four DoD civilian pay systems as the single, standard DoD civilian pay system. The four civilian pay systems were the Standard Army Civilian Pay System - Redesign; the Navy Standard Civilian Pay System; the Centralized Civilian Pay System (used by the Air Force); and the Automated Payroll, Cost, and Personnel System (used by the Defense Logistics Agency.)

The cost-benefit analysis showed that substantial quantifiable and unquantifiable benefits could be gained by implementing a single, standard civilian pay system. The cost-benefit analysis also showed that any one of the four civilian pay systems under consideration, if deployed DoD-wide, would result in lower costs than multiple civilian pay systems. The analysis also determined that the Navy Standard Civilian Pay System (now the DCPS) was the least expensive and the most stable, functional, and established system.

In the report, DFAS recommended generating savings of more than \$700 million in a 10-year period by implementing DCPS and eliminating redundant civilian pay systems and the staffs that support them. According to the "DoD Chief Financial Officer Financial Management 5-Year Plan," November 2, 1994, the use of migratory systems such as DCPS should facilitate more rapid implementation of fully integrated and standardized DoD finance and accounting systems. These actions should improve both the quality and the consistency of DoD's financial information.

Maintaining Two Civilian Pay Systems

The USD(C) planned to continue operating and maintaining two civilian pay systems rather than consolidating and standardizing DoD civilian pay functions in DCPS. The program manager for DCPS, with the approval of the USD(C), planned to fully implement the DCPS by FY 1996; however, the implementation plan would not convert about 120,000 DoD civilian employees from the DBMS to DCPS. These employees represented approximately 13 percent of the DoD civilian work force.

Continued operation of two civilian pay systems contradicts the goal stated in the "Report on the Consolidation and Standardization of Civilian Payroll Within DoD," January 1992. The goal is to migrate from 18 DoD civilian pay systems to a single civilian pay system. Also, the use of two civilian pay systems does not fully adhere to the strategy presented in the DoD Corporate Information Management Strategic Plan for integrating systems.

Plans to Use Two Civilian Pay Systems

The DoD Corporate Information Strategic Plan states:

The Department needs to establish a common baseline of non-duplicative, standard information systems as a part of a solid-foundation for continual long-term functional improvement. . . . When the migration systems are standardized throughout the DoD, legacy systems will be "shut down" to achieve savings from eliminating duplication.

Based on the "Report on the Consolidation and Standardization of Civilian Payroll Within DoD," the decision to maintain two civilian pay systems will also affect other management information systems. For example, the Deputy Assistant Secretary of Defense (Civilian Personnel Policy) plans for all DoD agencies to use a single personnel system, the DCPDS, by FY 1998. This system will perform civilian personnel functions currently performed by the DBMS. However, the USD(C) does not plan to transfer the civilian pay functions from DBMS to DCPS. On March 3, 1995, the Deputy Assistant Secretary of Defense (Civilian Personnel Policy) asked the DFAS if civilian pay functions will migrate to the DCPS or if both the DCPS and the DBMS will be used to provide civilian pay services. The Deputy Assistant Secretary of Defense (Civilian Personnel Policy) stated that if DFAS plans to continue using DBMS, the interface between that system and the new personnel system would have to be maintained (see Appendix C for the complete text of the comments).

The decision to leave civilian pay functions in DBMS decreases the efficiency of both the consolidation into DCPS and the DCPDS. Maintaining interfaces between both DBMS and DCPS with the DCPDS will result in additional costs and reduce the savings planned from implementing DCPS. Migration to a single civilian pay system will better ensure that the anticipated savings and benefits of implementing standardized systems are achieved.

Civilian Pay Services Provided by an Integrated System

Approximately 120,000 employees are not currently scheduled to migrate to DCPS because the USD(C) preferred that an integrated system, DBMS, provide civilian pay services. The DBMS provided not only civilian pay services, but also accounting, manpower, cost accounting, and personnel services for Defense Business Operations Fund activities. However, personnel services will be transferred out of DBMS in FY 1998, according to plans developed by the Office of the Under Secretary of Defense (Personnel and Readiness.)

Personnel in the Office of the USD(C) stated that the cost-benefit analysis in the "Report on Consolidation and Standardization of Civilian Payroll Within DoD," January 1992, should be updated. Specifically, they stated that the potential costs of removing the civilian pay function from DBMS may not be totally offset by savings achieved by using DCPS. The USD(C) personnel also stated that the remaining portions of DBMS could not continue to function without further changes. They will not know whether such changes will be cost-effective until a new personnel function is added or a system is found to replace

DBMS. Therefore, the USD(C) personnel believed that the cost-benefit analysis should be updated to consider the effects of dismantling DBMS before a personnel system is developed or DBMS is replaced. We agree that the cost-benefit analysis should be updated, since no update has been done since 1992. A valid estimate of the potential monetary benefits that could result from consolidating DBMS civilian pay services into DCPS cannot be determined until the costs and benefits of migrating 120,000 employees to DCPS are estimated. A cost-benefit analysis will also help to determine whether the two civilian pay systems strategy in DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 8, "Civilian Pay Policy and Procedures," January 3, 1995, is cost-effective.

The "DoD Financial Management Regulation" states that all Defense Business Operations Fund activities will use DCPS instead of DBMS for civilian pay services unless the activities do not have cost accounting systems. The regulation also states that DCPS will be used by all other DoD activities. However, the decision to use two systems was not part of the cost-benefit analysis performed in 1992. A cost-benefit analysis to determine the advisability of using two civilian pay systems will give the USD(C) enough documentation to implement a cost-effective civilian pay strategy.

Benefits of a Single Civilian Pay System

The documented benefits of a single civilian pay system would be lost if a second system were necessary. DFAS would not achieve part of the \$700 million of benefits expected to result from migrating to a single civilian pay system. The "Report on Consolidation and Standardization of Civilian Payroll Within DoD" and the "DoD Chief Financial Officer Financial Management 5-Year Plan," November 2, 1994, describe the benefits of using DCPS as the single civilian pay system for DoD. Those benefits include:

- o cost savings realized by eliminating other civilian pay systems and the central design activities that support those systems;
- o uniform interpretation of regulations and civilian pay calculations;
- o standard operating procedures, forms, and training;
- o reducing documentation, including regulations and manuals; and
- o standardizing and integrating financial management systems.

We found that the "Report on Consolidation and Standardization of Civilian Payroll Within DoD" included a cost-benefit analysis for implementing four civilian pay systems in three different configurations. Those systems were the Standard Army Civilian Pay System - Redesign; the Navy Standard Civilian Pay

Plans to Use Two Civilian Pay Systems

System; the Centralized Civilian Pay System; and the Automated Payroll, Cost, and Personnel System. The analyses of those systems were for costs and benefits that could be expected during a 10-year period.

One scenario in the analysis estimated the resources required to maintain the 18 civilian pay systems that existed in FY 1992 without plans for deployment or enhancement, except as required by new legislation. The cost for maintaining the systems during a 10-year period was \$1.27 billion. The second scenario estimated the resources required to continue deployment of a single civilian pay system for each of the four DoD Components during a 10-year period. The cost of this option was \$608.6 million, a savings of \$662.7 million. The third scenario estimated the costs of deploying a single civilian pay system DoD-wide during a 10-year period. The third scenario showed that the cost of deploying the Navy Standard Civilian Pay System (now the Defense Civilian Pay System) DoD-wide was \$525.6 million. The Navy Standard Civilian Pay System was the least expensive of the four DoD Components' systems, and it would save more than \$700 million over the continuing use of the 18 systems.

The cost-benefit analysis clearly demonstrated that using one civilian pay system is more cost-effective than multiple civilian pay systems. USD(C) personnel acknowledged that the only documented cost-benefit analysis is in the "Report on Consolidation and Standardization of Civilian Payroll Within DoD." That analysis supports the use of only one civilian pay system. However, the USD(C) personnel stated that updating the costs and benefits is required to justify either a conversion to DCPS or the continued use of DBMS.

The recommendations in this report, if implemented, will give the USD(C) the information needed to implement the most cost-effective pay strategy for all DoD civilian employees. See Appendix D for all potential benefits of this audit.

Recommendations, Management Comments, and Audit Response

As a result of management comments, we revised the recommendation to modify DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 8, "Civilian Pay Policy and Procedures," January 3, 1995. Also, we redirected and revised the recommendation to migrate civilians receiving civilian pay services from the Defense Business Management System to the Defense Civilian Pay System.

We recommend that the Under Secretary of Defense (Comptroller):

- 1. Conduct a cost-benefit analysis on the feasibility of migrating all DoD civilian employees to the Defense Civilian Pay System.**

2. Implement the most cost-effective DoD-wide civilian pay strategy based on the cost-benefit analysis in Recommendation 1. Also, revise DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 8, "Civilian Pay Policy and Procedures," January 3, 1995, to reflect the strategy.

Management Comments. The Deputy Chief Financial Officer, USD(C), neither concurred nor nonconcurred with the recommendations. The Deputy Chief Financial Officer stated that the USD(C) was responsible for selecting standard financial systems and for continuing to use the civilian pay function in the Defense Business Management System. The Deputy Chief Financial Officer stated that therefore, the recommendations should be addressed to the USD(C). In addition, the Deputy Chief Financial Officer indicated that the report did not recognize the potential costs of extracting the civilian pay function from the DBMS and paying all personnel from the DCPS. He also indicated that without a cost-benefit analysis, DoD could not determine whether migrating DBMS employees to DCPS or keeping them in the DBMS system would be more cost-effective.

Audit Response. Although the Deputy Chief Financial Officer responded to the report, his comments were only partially responsive. We agreed that a cost-benefit analysis regarding the number of civilian pay systems is needed to justify either a conversion to the DCPS or the continued use of the DBMS. We have revised our recommendations accordingly. Also, if the cost-benefit analysis recommends the conversion to a single civilian pay system, a strategy should be developed to implement that strategy. We request that the USD(C) comment on the revised recommendations in response to the final report.

Part II - Additional Information

Appendix A. Scope and Methodology

Scope

Use of Computer-Processed Data. We did not rely on computer-processed data to support our finding and recommendations because the areas reviewed did not contain computer-processed data.

Audit Period, Standards, and Locations. We conducted this financial-related audit from January through July 1995 and reviewed DCPS data covering the period January 1992 through March 1995. To accomplish the audit work, we conducted interviews and obtained documentation from DFAS personnel.

We did not assess the costs of operating DCPS during this audit. Those costs will be addressed in a subsequent report.

We conducted the audit in accordance with the auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD, and accordingly included the necessary tests of management controls. Appendix E lists the organizations we visited or contacted.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of Management Control Program. We reviewed the adequacy of management controls regarding the decision to field two civilian pay systems for the DoD. We did not assess the adequacy of management's self-evaluation of those controls.

Adequacy of Management Controls. The DFAS management controls we reviewed were adequate in that we identified no material management control weaknesses.

Appendix B. Summary of Prior Audits and Other Reviews

Since 1990, no prior reports related to the audit objectives have been issued.

Appendix C. DoD Plan for Migrating to a Single Defense Civilian Personnel System



FORCE MANAGEMENT
POLICY

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-4000



53 MAR 1995

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: The Defense Business Management System (DBMS)

The approval of Program Budget Decision 711 gives us the challenging opportunity to develop and deploy a modern target Defense Civilian Personnel Data System. This new and exciting development effort will impact the way the Department does civilian personnel business and will have some effect on the civilian pay business as well.

We stand by our original commitment to place all DoD agencies on a single personnel system. We hold FY 98 as our goal and will work diligently to achieve our plan. The movement of civilian personnel data from DBMS to the target system will require some manipulation of the DBMS payroll information. Although we are aware of your plans to migrate DoD agencies to the Defense Civilian Pay System (DCPS) through the end of FY 96, we are not aware of any effort to include DBMS payroll customers in that schedule. If it is your plan that DBMS will continue to exist as a payroll system, we must assume the continued use of the DBMS Interface beyond FY 97. If your decision is to move all pay functions from DBMS to DCPS, we would like to know your anticipated schedule of migration so that we can plan accordingly.

We ask for your support and cooperation to insure a smooth transition to the future system. John Moseley is the contact in this matter and can be reached at 703-756-0410 or DSN 289-0410.

Diane M. Disney
Deputy Assistant Secretary of Defense
(Civilian Personnel Policy)



Appendix D. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1.	Program results. Establishes requirements that will provide greater assurance that the DoD civilian employee pay program will result in a more cost-effective method of providing civilian pay services to DoD civilian employees.	Nonmonetary.
2.	Management controls. Assists DoD management in controlling costs and achieving savings by implementing the most cost-effective civilian pay strategy.	Not determinable. The amount of funds put to better use will be based on the assessment of current costs and savings shown in the cost-benefit analysis.

Appendix E. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller), Washington, DC
Assistant Secretary of Defense (Command, Control, Communications
and Intelligence), Washington, DC
Deputy Assistant to the Secretary of Defense (Civilian Personnel Policy),
Washington, DC

Defense Agencies

Defense Finance and Accounting Service, Washington, DC
Defense Information Systems Agency, Arlington, VA

Appendix F. Report Distribution

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Deputy Assistant to the Secretary of Defense (Civilian Personnel Policy)
Director, Defense Logistics Studies Information Exchange

Department of the Army

Assistant Secretary of Army (Financial Management and Comptroller)
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
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House Committee on Appropriations
House Subcommittee on National Security
House Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal
Justice, Committee on Government Reform and Oversight
House Committee on National Security

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Part III - Management Comments

Under Secretary of Defense (Comptroller) Comments

Final Report
Reference



OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100



NOV 14 1995

MEMORANDUM FOR DIRECTOR OF FINANCE AND ACCOUNTING, DODIG

SUBJECT: Draft Audit Report on Standardization of Defense Civilian Pay Systems (Project Number 5FG-2004)

This memorandum responds to a request for comments on the Draft Audit Report on Standardization of Defense Civilian Pay Systems (Project No. 5FG-2004) dated August 4, 1995.

The USD(C)/CFO, and not the Director, DFAS, is responsible for selecting standard financial management systems. While the DFAS may provide recommendations (as may the DoDIG and others), the authority to make decisions on financial management systems—including payroll systems—rests with the USD(C)/CFO. Therefore, the recommendations should be directed toward the USD(C).

Additionally, the USD(C)/CFO, and not the DFAS, made the decision to allow the continued use of the payroll function in the DBMS. Therefore, the report should be modified to properly reflect the level at which the decision was made, and why.

While the January 1992 "Report on the Consolidation and Standardization of Civilian Payroll Within DoD" may have recommended migrating from eighteen systems to one, it is important to remember that the report provided only a recommendation—it did not represent a decision. Therefore, the "DoD goal" referenced on page 6 is not in fact a "DoD goal."

The draft report indicates that the full potential savings associated with the achievement of a single payroll system may not be achieved if two [payroll] systems continue to be used. However, the report does not recognize that there also are potential costs associated with dismembering the DBMS in order to pay all personnel from the DCPS. These costs, obviously would offset (either in whole or only in part) anticipated savings associated with paying all civilians from the DCPS, but do not appear to have been considered by the OIG. Additionally, the draft report states that "...no need exists for continuing to use the payroll services provided by the DBMS." Without regard to whether there is a need, there may be a benefit, and it may be more cost effective, to retain the payroll portion of the DBMS until either (1) a new standard personnel system is in place and the personnel portion of DBMS is eliminated in favor the new personnel system or (2) the DBMS is replaced with another financial system, or major financial portions of the DBMS are replaced.

Revised and
redirected
Recommend-
ation 2.

Revised as
needed.

Revised
page 5.

Final Report
Reference

Revised
Recommendation 1.

The draft report acknowledges that additional information is required before the amount of anticipated savings can be identified. Without identification of the savings anticipated from a conversion to the DCPS, and the associated costs of dismembering the DBMS, it is unclear whether it would, or would not, be cost effective to eliminate the payroll portion of the DBMS to the DCPS.



Alvin Tucker
Deputy Chief Financial Officer

Audit Team Members

This report was produced by the Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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